

SBA

U.S. Small Business
Administration

e

Business Plan for the Small Construction Firm

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INTRODUCTION

A business plan can provide you, the owner-manager or prospective owner-manager of a small construction firm, with a pathway to profit. This publication is designed to help you develop a business plan.

In building a pathway to profit you need to consider the following questions: What business am I in? What do I sell? Where is my market? Who will buy? Who is my competition? What is my sales strategy? How much money is needed to operate my firm? How will I get the work done? What management controls are needed? How can they be carried out? When should I revise my plan? Where can I go for help?

No one can answer such questions for you. As the owner-manager, you have to answer them as you draw up your business plan. This publication is a combination of text and work spaces so you can write in the information you gather in developing your business plan.

A Note on Using This Publication

It takes time, energy and patience to draw up a satisfactory business plan. Use this publication to record your ideas and the supporting facts. And, above all, make any needed changes in your plan as it unfolds. Keep in

mind that anything you leave out of the picture will create an additional drain on your money when it unexpectedly crops up later. If you leave out or ignore too many items,

your business is headed for disaster.

Remember, your final goal is to put your plan into action. More will be said about this step later.

What's in This for You?

The hammer, trowel, pliers and wrench are well-known tools of the construction industry. Management is another tool that you as the owner-manager of a construction firm must use. Each job must be planned and organized if the firm is to run smoothly and efficiently. A business plan will help you increase your management skills.

Because of the diversification in the construction industry, you may be engaged in residential, commercial or industrial construction. You may be either a general or a specialty contractor. Regardless of which field you're

in, the same basic managerial skills are needed. This plan is a guide to the various areas that managers are concerned with. As you work through this plan, adapt it to your particular needs.

When complete, your business plan will help guide your daily business activities. When you know where you want to go, it is easier to plan how to get there. Also, the **business plan can help you communicate your goals and the specifics** of your operations to employees, suppliers, bankers and others.

Whether you are just thinking about starting your own firm or have already started it, the business plan can be a great benefit. As your management skills increase so will the number of jobs you can effectively control. The careful completion of this plan may point out problems and limitations of your operation. This is important. To be a successful contractor you must not only know your business thoroughly, but also know your limits and seek professional advice in these areas.

Why Are You in Business?

Most contractors are in business to make money and be their own boss—both very important reasons. But don't forget, no one is likely to stay in business unless he or she also satisfies a consumer need at a competitive price—the reward of which is profit.

In the first years of business, your profits may seem like a small return for the long hours, hard work and responsibility of being the boss. But there are other rewards associated with having your own business. For

example, you may find satisfaction in helping to put

groceries on your employees' tables. Or maybe your

What Business Are You In?

At first glance this may seem a rather silly question. You may say, "If there is one thing I'm sure of, it's what business I'm in." But wait. Look further into the question. Suppose you say, "I build houses." Are you a speculative

or custom builder? Are you a remodeler? Are you a subcontractor? Can you schedule a complete job and make money? Defining your business clearly and tailoring your business plan to your definition will help increase your profits.

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Consider this example. **For many years, Bob Rogers had a** construction business that specialized in designing and building commercial bars. He had enough business to keep him and his crew busy until the early 1980s, when sales began to fall off. By moving his shop to smaller quarters with less overhead and by laying off half his crew, Mr. Rogers was able to maintain his business to his satisfaction for the rest of his life.

After his death, his son realized that he was not in the business of building commercial bars but rather of custom finishing. Today the son's business is prospering. He remodels kitchens and builds cabinets in private homes and also does other types of finish work and carpentry. The son's ability to redefine the nature of the father's business allowed him to gain greater benefits.

In the space below, state what business you're really in.

What are your reasons for this choice?

MARKETING

When you have decided what sort of construction

business you're in, you have made your first marketing decision. Now, in order to sell your service or product, you must face other marketing decisions.

Your marketing objective is to find enough jobs at the right times to provide a steady flow of income for your business. Start by coordinating your jobs to eliminate the down time between them. An individual who cannot come up with enough ideas to keep a crew working 12 months a year may not be ready to run a construction business.

Where Is Your Market?

Describe your market area in terms of customer profile (age, education, income, etc.) and geography. A customer profile will help you focus your advertising to reach your potential customers. For example, if you are a custom builder, you may decide to build homes in the \$100,000-\$250,000 price range. This would mean that your customers will have incomes in the middle- to upper-middle-class ranges. You may also decide you can

earn a profit by building these homes within a radius of 30 miles from your office. In the space below describe your market

Now that you have described what you want in terms of customer profile and location, what is it about your operation that will make these people want to buy your

product or service? For instance, quality work, competitive prices, guaranteed completion dates, effective advertising, unique design, etc., may set your business apart from competitors. Write your answer below.

Advertising

You have described what you're marketing (your product or service), who is going to buy it and why they're going to buy it. Now you must decide the best way to let your prospective customers know about your product.

In the space below jot down key words and ideas that

your customers should remember about your product or service. This will help you to create effective advertising.

	Types of	Location of
My product	customers	customers

What form of advertising should you choose? Ask the local media (newspapers, radio and television stations and direct mail printers) for information about their services and results they offer.

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Advertising Workbook

Form of advertising	Size of audience	Frequency of use		Cost of a single ad		Estimated cost
_____	_____	_____	×	\$ _____	=	\$ _____
_____	_____	_____	×	\$ _____	=	\$ _____
_____	_____	_____	×	\$ _____	=	\$ _____

How you spend advertising money is your decision, but don't fall into the trap that snares many small business managers. They consider themselves experts on advertising copy and media selection without any experience in these areas. Be sure to seek professional advice and compare what different advertisers offer.

Complete the above work block to determine what form of advertising is best for selling your construction services.

Competition

Competition in the construction industry often results in low profit margins. However, if you are just starting or are a relatively small firm, you may not be at a disadvantage. Often smaller firms can compete with bigger outfits because of lower overhead expenses. For example, your office may be in your home, or you may be able to work right out of your truck, saving the expense of a field office.

Competition is largely based on prices, although quality and efficiency are factors also considered by potential customers. Poor financial planners have a high failure rate. For this reason, plan carefully, particularly in the areas of estimating and bidding.

In order to measure your competition, answer the following questions.

Who will be your major competitors?

How will you compete against them?

Sales Strategy

The market for the construction industry is unique in many ways. It depends on such variables as the state of the economy,

local employment stability, the seasonal quality of the work, labor relations, good subcontractors and interest rates.

Also, as a contractor, you are unavoidably dependent on others, such as customers or financial institutions, for payment, and on other contractors for performance of their work. Consider your cash flow when you estimate and bid on a job. You must be paid in time to meet your own obligations.

Whether an owner-manager in the construction business succeeds-i.e., makes a profit-depends to a great extent on bidding practices. Therefore, you must make careful and complete estimates.

Many successful contractors attribute their success to their estimating procedures. Before submitting a bid, they calculate all job costs by dividing the job into work units and pieces of material, and then assigning a cost to each item. The total of these costs will be the direct construction cost. They also estimate the indirect costs of a job, such as overhead "penses-the costs of maintaining the office, trucks, license fees, etc. The estimate should also include any interest charges on borrowed money, insurance fees, surety bond premiums, travel expenses, advertising costs, office salaries, lawyer's fees, etc. These must also be paid out of gross income.

Trade associations, as one of their services, often provide members with a package of business forms. The "cost estimate form" is usually included in this package. The obvious advantage of these forms is that they are specifically designed for a particular trade.

x t

x \$

Total \$

Estimating

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Regardless of what cost estimate form you use, it should include headings for activity, material, labor, subcontracts and estimated cost. It also should have areas for direct construction costs, indirect construction costs, overhead and profit. In addition, a column for the actual cost compared to the estimated cost of a specific work item will allow you to evaluate the profitability of a job after it is completed. This will show you where your estimates were high or low, and enable you to adjust future bids on similar projects. This column will also be necessary when it comes time for your financial accounting.

Bidding

Your decision to bid or not to bid on a particular job should be determined by several factors. First, do you have the capacity to complete the job on schedule and according to the specifications? Beware of overextending yourself out of business. You must operate within your known capabilities. On any job, you must follow all the details of the work yourself, or find competent supervision.

Bonding

Bonding companies work with construction companies to ensure that the construction firm fully commits to the terms of its contract. Usually bonding companies base their fees for bonds on a percentage of the contract price. For example, if you have a \$100,000 and your bonding company charges 10 percent of the contract price, you will pay \$10,000 for bonds.

There are three main types of bonds. *Bid bonds* assure

that the successful bidder is prepared to perform the work according to the terms of the contract. *Performance bonds* assure completion of the job according to plans and specifications. *Payment bonds* assure anyone dealing with the bonded contractor that he or she will be paid.

The effect of being a bonded contractor is evident in the area of competition. The customer, by requiring that the contractor be bonded, is more or less assured of adequate completion of the job. Therefore, customers are more likely to compare contractors on the basis of price.

With the widespread use of bonding requirements, the competition generated often leads the inexperienced contractor to submit bids that are unrealistically low. One or two such mistakes can spell bankruptcy. Being a bonded contractor is a good advertising point. Another advantage is that banks are often more lenient toward bonded contractors.

Will you need bonding:

often, occasionally or seldom?

Where will you get your bond?

What will the terms be?

Bonding companies usually require the contractor to have proven experience and the financial capability to complete a project. Meeting these requirements can be a real stumbling block to a new construction firm.

The U.S. Small Business Administration (SBA) has a surety bond program, designed to help small and emerging contractors who might previously have been unable to get bonding. SBA is authorized to guarantee up to \$1.25 million or 90 percent of losses incurred under bid, payment or performance bonds. Applications for this assistance are available from any SBA field office.

PLANNING THE WORK

Once your marketing efforts result in jobs, the problem becomes one of production. How will you plan the work so that the job gets done on time?

No matter how you plan the work, your plan should help you maintain your production schedule and adjust production to meet changing conditions, such as bad weather.

As you plan your work schedule, keep in mind the timing of starts and the timing of the various steps in the

construction of your projects. Don't forget to consider the size and nature of each job also. With sufficient help and supervisory personnel, you can engage in your maximum number of projects.

The work schedule should show the various operations in sequence and assign a working day and calendar day to each. Several operations may be in progress simultaneously. A glance at your work schedule will let

you know **ff work is progreming** on time. Many companies offer commercial scheduling boards designed for this purpose.

Below is a partial work schedule to demonstrate how yours may be set up. Note that there is a column that can be filled in with either a solid mark or an "X" to indicate either partial or completed work. When you look at a particular calendar day, an "X" next to it would indicate that you're on schedule. An open square indicates a delay. Here, then, is a convenient way to spot delays so you can take coffective action.

You should save your work schedules as a basis for fumm estimates. For example, if you are estimating a job similar to one you've done before, you'll already have information on the steps of production, what materials you'll need and when, how long the job will take and any peculiarities that may affect job completion. When you consider all these things, you'll be more likely to submit an accurate bid.

Working Day

Aedvity	Start	Finish	Calendar day Complete
1. Layout	1	1	15
2. Foundation forms	1	2	16
3. Foundation pour	3	3	19
(indicates: V4 complete)			

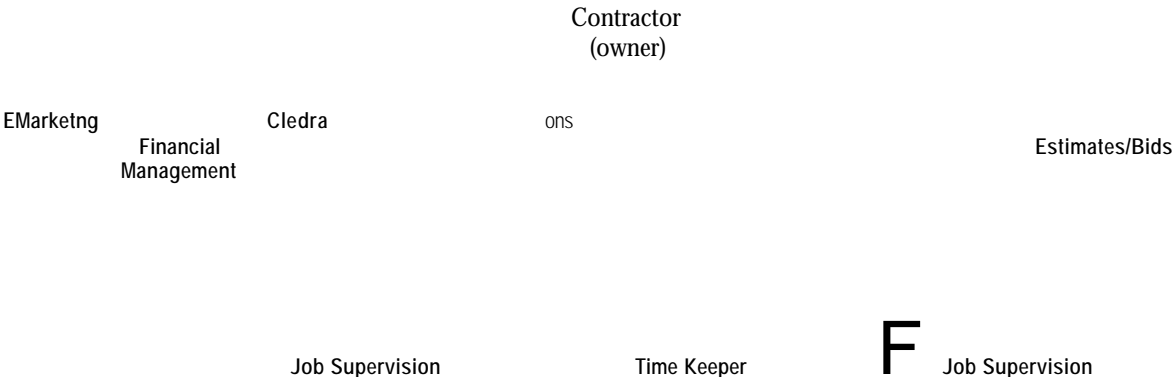
Careful records can also indicate how many workers you will need. If the work falls behind schedule, you may need to bring more workers to the job to complete it on time. In this way, you will avoid a possibly larger financial loss from paying a penalty for late work (if that is called for in your contract). Also, records will indicate any changes needed in the organizational structure of your firm.

GETTING THE WORK DONE

If your firm is going to run efficiently, you will need organization because, as your company grows, you will not be able to do all the work. You have to delegate work, responsibility and authority. An organizational chart is a useful device for accomplishing this, as it clearly shows who is responsible for the major activities of your business.

At first, many construction companies are single-person shows. It is up to the owner to do almost everything. In this case the organizational chart might look something like Chart 1.

Chart I



As the company grows, perhaps specialists are added, such as an engineer/estimator, an office manager and a general superintendent. The organizational chart then begins to look like Chart 2.

Often, people with complementary experience and skills, such as work experience and office experience, will form a partnership. The organizational chart will look like Chart 3.

Chart 2

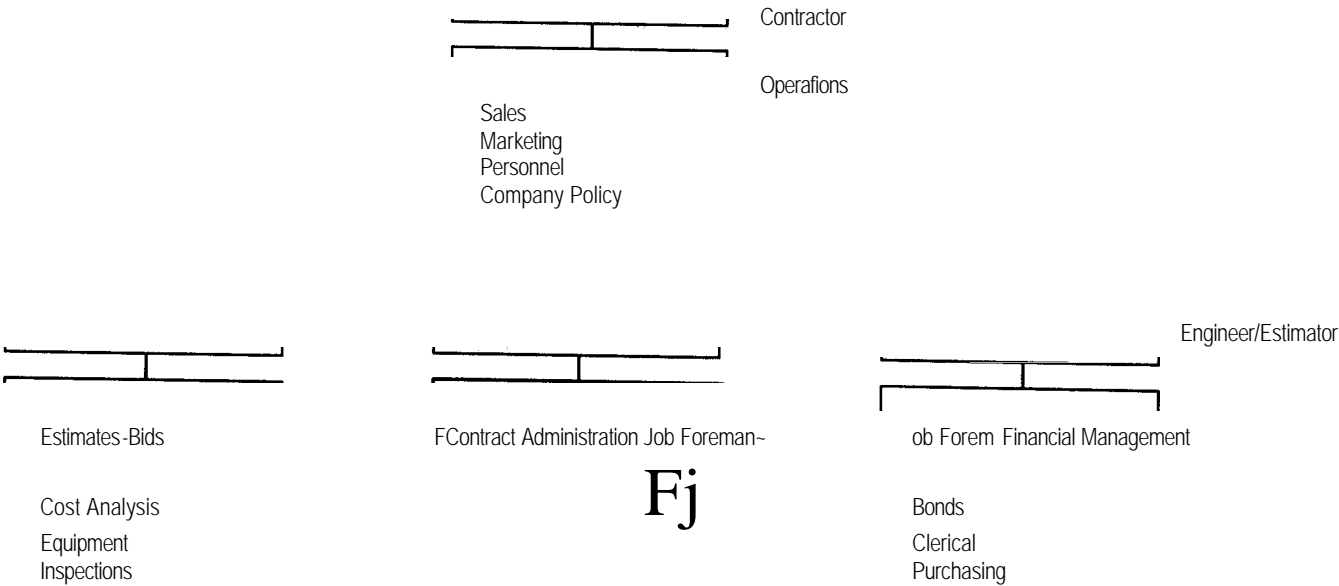
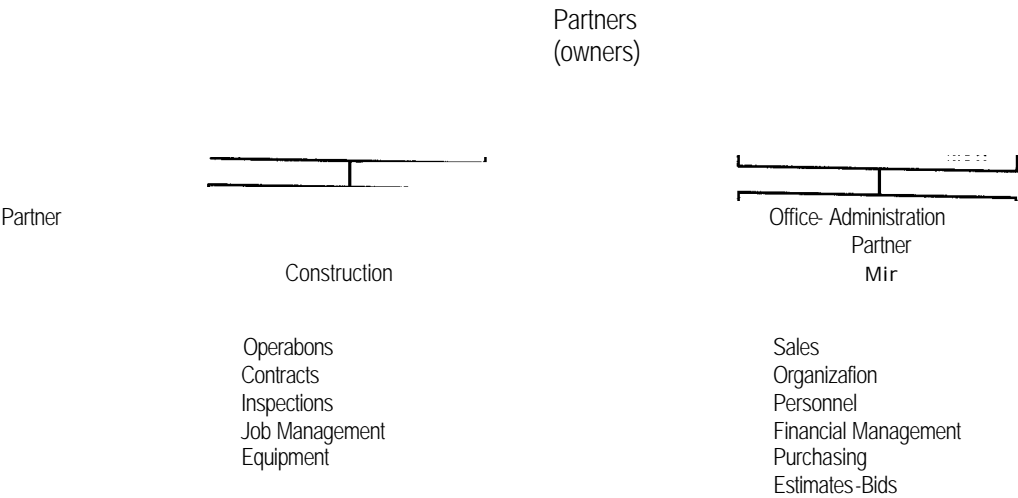


Chart 3



Foreman

Job Foreman

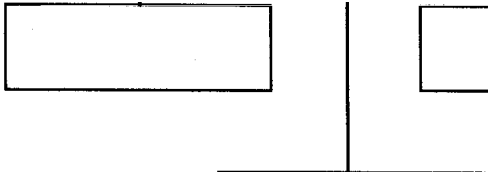
In the space below, draw an organizational chart for your company.

Personnel Requirements

Will you carry a permanent crew or hire workers as the need arises?

Will you use union or nonunion labor?

How many workers will you need?



What hourly rate will you pay?

Will you need clerical help?

What will it cost?

What will fringe benefits cost?

Will you supervise the work yourself or hire a foreman?

If you hire a foreman, what will his or her salary be?

Equipment Requirements

What special equipment will you need (assuming your work force will supply its own hand tools)?

Equipment	Rent	Buy	Your cost
-----------	------	-----	-----------

Will you need an office or use your home?

Chart 4

President
(Your Name)

If you will need an office, what will the rent, utilities and other expenses cost?

_____	\$	_____
_____	\$	_____
_____	\$	_____
_____	\$	_____

PUT YOUR PLAN INTO DOLLARS

The basic unit of financial management in the construction business is the job. The financial aspects of the job must be planned as carefully as the construction work necessary to do the job. The payment for each job must cover the direct and indirect construction costs as well as the allocated share of overhead.

Accounting requirements will vary from company to company and from trade to trade. Your accountant will help you set up the accounting system that will best meet your needs. However, you must make the overall plans yourself. You must develop the goals necessary to guide and manage your business. This overview will prove

invaluable in establishing a good working relationship with your banker (or other lender) and your bonding company.

In your financial planning, the first consideration is the source of income. In dollars, how much business (sales) will you be able to do in the next 12 months? \$

Expenses

In connection with annual sales volume, you need to think about expenses. For example, how much will it cost you to do \$100,000 worth of work? And even more important, what will be left as profit at the end of the year?

Profit is your pay. Even if you pay yourself a salary for living expenses, your business must make a profit if it is to continue and pay back the money and time you have invested in it. Profit helps your firm to be strong and to have a financial reserve for any lean periods.

The *income projection statement* in Appendix A is designed to help you figure your yearly expenses. To use this worksheet, you need to get one set of figures---the *operating ratios* (expenses as a percentage of sales) for your line of business. These operating ratios will help you determine if the figures on your income projection are in the proper range for your business in your location. If you don't have these figures, check with the trade association that serves your area of the construction industry.

Matching Money and Expenses

After you have planned your month-to-month expenses, the next question is, "Will there be enough money coming in to meet these expenses and to sustain your company in the event that there is down time until your next job?"

The *cashflow projection* is a management tool that can eliminate much of the anxiety during lean months. Use the cash flow projection in Appendix B or ask your accountant to estimate the amounts of cash that you

expect to flow through your business during the next 12 months.

Remember that the expenses of buying the materials and supplies for a particular job may occur a month or two before a payment is made. The estimated cash flow projection should show this.

Is Additional Money Needed?

Your planning may show periods when you will be short of cash. For example, when you start a job you will need materials and supplies. It may be a month or two before your first payment. What do you do in the interim if trade credit will not completely satisfy your cash needs?

Your bank may be able to help with a short-term loan. A banker who is to lend you money on either a short- or long-term basis will want to know your company's financial condition. The bank officer will ask to see a *balance sheet*.

A blank balance sheet is included in Appendix C. Even if you don't need to borrow money, use it as an outline of your firm's financial condition. You may want to show your plan to the bank that handles your company's account. It is never too early to build good relations with your banker. A time may come when you may have to seek funds from your banker.

CONTROL AND FEEDBACK

To make your plan work you will need feedback at the various stages of your management process-i.e., when planning, directing and controlling the job-m well as adequate financing. The management controls you set up should supply the information you need to keep your

During the planning stage, you will need to calculate your bid carefully. To direct a job, you will need your job cost analysis to make sure that the job is going to make a profit To control the job, you must organize your employees' work schedules. Personal follow up ensures

IS YOUR PLAN WORKABLE?

operation "on the money."

efficient performance by your personnel.

Now that you've planned this far, step back and take a look at your plan. Is it realistic? Can you do enough

plan to someone not involved in developing the plan. Your banker, contact person at SBA (SCORE counselor)

IMPLEMENTING YOUR PLAN

business to make a living?

If your plan isn't workable, now is the time to revise it, not after you've invested your time and money. If you feel that some revisions are needed before you start your

own business, then make them. Go back to the cash flow projection and adjust the figures. Show your business When your plan is as specific as possible, you are ready to implement it. Keep in mind that action is the difference between a plan and a dream. If a plan is not acted on, it is of no more value than a pleasant dream that evaporates over the breakfast coffee.

The first step will be acquiring enough capital to get started. Do you already have the money? Will you borrow it from friends, relatives or a bank? What else needs to be done? Look for positive action steps that will get your business rolling. For example, where and when will you hire competent employees? Where and how will you get whatever licenses you need to be a contractor? (These requirements differ from state to state. A summary of licensing, prequalification and tax information can be found in the Summary of State Regulation and Taxes

or any outside advisor may be able to point out strong points that, if emphasized, could turn into dollars.

If you have serious doubts about your business or your ability to run it, it might be better to delay going into business until you feel as comfortable with the tools of

management as you do with the tools of your trade. Affecting General Contractors, available from the American Insurance Association, 1130 Connecticut Avenue, NW, Washington, DC 20036, ATTN: Publications.)

In the following space, list what you must do to get your business off the drawing board and into action, and give

Action

Completion date

KEEPING YOUR PLAN CURRENT

Expect business conditions to change and be ready to adjust your plan accordingly. The difference between successful and unsuccessful planning is often the ability to watch for changes. Review your plan once a month. As an owner-manager, you must

Be alert to the changes that come about in your industry, market and customers.

- Check your plan against these changes periodically.
- * Determine what revisions, if any, are needed in your plan and implement them.

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ance
ises/pennits
payments
llaneous
x expenses

ofit (loss)
e taxes
;
ofit (loss)
taxes

INSTRUCTIONS FOR INCOME PROJECTION STATEMENT

The income projection (profit and loss) statement is valuable as both a planning tool and a key management tool to help control business operations. It enables the owner-manager to develop a preview of the amount of income generated each month and for the business year, based on reasonable predictions of monthly levels of sales, costs and expenses.

As monthly projections are developed and entered into the income projection statement, they can serve as definite goals for controlling the business operation. As actual operating results become known each month, they should be recorded for comparison with the monthly projections. A completed income statement allows the owner-manager to compare actual figures with monthly projections and to take steps to correct any problems.

Industry Percentage

In the industry percentage column, enter the percentages of total sales (revenues) that are standard for your industry, which are derived by dividing

cost/expense items x 100% total net sales

These percentages can be obtained from various sources, such as trade associations, accountants or banks. The reference librarian in your nearest public library can refer you to documents that contain the percentage figures, for example, Robert Morris Associates' *Annual Statement Studies* (One Liberty Place, Philadelphia, PA 19103).

Industry figures serve as a useful benchmark against which to compare cost and expense estimates that you develop for your firm. Compare the figures in the industry percentage column to those in the annual percentage column.

Total Net Sales (Revenues)

Determine the total number of units of products or services you realistically expect to sell each month in each department at the prices you expect to get. Use this step to create the projection to review your pricing practices.

What returns, allowances and markdowns can be expected?

Exclude any revenue that is not strictly related to the business.

Cost of Sales

The key to calculating your cost of sales is **that you do not overlook** any costs that you have incurred. Calculate cost of sales for all products and services used to determine total net sales. Where inventory is involved, do not overlook transportation costs. Also include any direct labor.

Gross Profit

Subtract the total cost of sales from the total net sales to obtain gross profit.

Gross Profit Margin

The gross profit is expressed as a percentage of total sales (revenues). It is calculated by dividing gross profits total net sales

Controllable Expenses

Salary expenses-Base pay plus overtime.

Payroll expenses-Include paid vacations, sick leave, health insurance, unemployment insurance and social security taxes.

Outside services-Include costs of subcontracts, overflow work and special or one-time services.

Supplies-Services and items purchased for use in the business.

Repairs and maintenance-Regular maintenance and repair, including periodic large expenditures such as painting.

Advertising-Include desired sales volume and classified directory advertising expenses.

Car, delivery and travel-Include charges if personal car is used in business, including parking, tolls, buying trips, etc.

Accounting and legal--Outside professional services.

Fixed Expenses

* Rent-List only real estate used in the business.
Depreciation--Amortization of capital assets.

- Utilities-Water, heat, light, etc.
- Insurance-Fire or liability on property or products. Include workers' compensation.
- Loan repaynwnts-Interest on outstanding loans.
- Miscellaneous-Unspecified; small expenditures without separate accounts.

Net Profit Ooss)		Subtract total expenses from
(before taxes)		gross profit.
Taxes		Include inventory and sales
		taxes, excise tax, real estate
		tax, etc.
Net Profit (loss)		Subtract taxes from net profit
(after taxes)		(before taxes).
Annual Total		For each of the sales and
		expense items in your income
		projection statement, add all
		the monthly figures across the
		table and put the result in the
		annual total colwnn.
Annual Percentage	9	Calculate the annual
		percentage by dividing
		annual total x 100%
		total net sales
	0	Compare this figure to the
		industry percentage in the first
		column.

[illegible]

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INSTRUCTIONS FOR CASH FLOW PROJECTION—CONSTRUCTION FIRMS

1. **EXPECTED AVAILABLE CASH**
The total balance in all your business bank accounts.
2. **CASH BALANCE** the loan. Commercial loans are typically
The cash balance, positive or negative, in the business at the beginning of each month.
3. **EXPECTED RECEIPTS**
Separate your income by all of the jobs (e.g.,

A, B, C) you have at one time.
4. **BANK LOANS**
List proceeds from each bank loan in the month that you receive it.
5. **EXPECTED CASH REQUIREMENTS**
Separate your expenses by all of the jobs (A, B, C) that you list under receipts.
6. **LOAN REPAYMENTS**
Separate monthly payments for each of your loans. Your debt load for a given month will vary depending on the repayment schedule of

figured on different schedules; for example, some of your equipment may be paid on monthly installments, other equipment may be on a quarterly installment schedule, and a capital asset loan may be repaid in annual

installments.
7. **TOTAL LOANS DUE TO BANK**
Add up all loan repayments for each month and place them on the bottom line of your cash flow projection. This will help you monitor the amount of money from your business that is going to debt service.

APPENDIX C: BALANCE SHEET

COMPANY NAME

As of

19



Assets

Current assets

Cash

Petty cash

Accounts receivable

Inventory

Short-term investments

Prepaid expenses

Long-term investments

Fixed assets

Land

Buildings

Improvements

Equipment

Furniture

Automobiles/vehicles

Other assets

1

2.

3.

4.

Liabilities

Current liabilities

Accounts payable

Notes payable

Interest payable

Taxes payable

Federal income tax

State income tax

Self-employment tax

Sales tax (SBE)

Property tax

Payroll accrual

Long-term liabilities

Notes payable

Total liabilities

Net worth (owner equity)

Proprietorship

Partnership

Partners

equity

(name's

equity

(name's equity

or

Corporation

Capital stock

Surplus and

Retained earnings

Total net worth

\$

\$

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.....

(Total assets will always equal total liabilities and total net worth.)

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INSTRUCTIONS FOR BALANCE SHEET

Figures used to compile the balance sheet are taken from the previous and current balance sheet as well as the current income statement. The income statement is usually attached to the balance sheet. The following text covers the essential elements of the balance sheet. At the top of the page fill in the legal name of the business, the type of statement and the day, month and year.

Assets

List anything of value that is owned or legally due the business. Total assets include all net values. These are the amounts derived when you subtract depreciation and amortization from the original costs of acquiring the assets.

Current Assets

- **Cash**-List cash and resources that can be converted into cash within 12 months of the date of the balance sheet (or during one established cycle of operations). Include money on hand and demand deposits in the bank, e.g., checking accounts and regular savings accounts.
- **Petty cash**-If your business has a fund for small miscellaneous expenditures, include the total here.
- **Accounts receivable**-The amounts due from customers in payment for merchandise or services.
- **Inventory**-Includes raw materials on hand, work in progress and all finished goods, either manufactured or purchased for resale.
- **Short-term investments**-Also called temporary investments or marketable securities, these include interest- or dividend-yielding holdings expected to be converted into cash within a year. List stocks and bonds, certificates of deposit and time-deposit savings accounts at either their cost or market value, whichever is less.
- **Prepaid expenses**-Goods, benefits or services a business buys or rents in advance. Examples are office supplies, insurance protection and floor space.

Long-term Investments

Also called long-term assets, these are holdings the business intends to keep for at least a year and that typically yield interest or dividends. Included are stocks, bonds and savings accounts earmarked for special purposes.

Fixed Assets

Also called plant and equipment. Includes all resources a business owns or acquires for use in operations and not intended for resale. Fixed assets, except for land, are listed at cost less depreciation. Fixed assets may be leased. Depending on the leasing arrangement, both the value and the liability of the leased property may need to be listed on the balance sheet

- **Land**-List original purchase price without allowances for market value.
- * **Buildings**
- **Improvements**
- * **Equipment**
- **Furniture**
- **Autos? vehicles**

Liabilities

Current Liabilities

List all debts, monetary obligations and claims payable within 12 months or within one cycle of operations.

Typically they include the following:

- **Accounts payable**-Amounts owed to suppliers for goods and services purchased in connection with business operations.
- **Notes payable**-The balance of principal due to pay off short-term debt for borrowed funds. Also include the current amount due of total balance on notes whose terms exceed 12 months.
- **Interest payable**-Any accrued fees due for use of both short- and long-term borrowed capital and credit extended to the business.

- Taxes payable-Amounts estimated by an accountant to have been incurred during the accounting period.
- Payroll accrual-Salaries and wages currently owed.

Not Worth

Also called owner's equity, net worth is the claim of the owner(s) on the assets of the business. In a proprietorship or partnership, equity is each owner's original investment plus any earnings after withdrawals.

Long-term Liabilities

Total Liabilities and Not Worth Notes payable-List notes, contract payments or

mortgage payments due over a period exceeding 12 months or one cycle of operations. They are listed by outstanding balance less the current portion due.

The sum of these two amounts must always match that for total assets.

APPENDIX D: HOW TO WRITE A BUSINESS PLAN ©

The following pages provide a suggested outline of the material that should be included in your business plan. Your final plan may vary according to your needs or because of the individual requirements of your lender.

What Are the Benefits?

Every business can benefit from the preparation of a carefully written plan. There are two main purposes for writing that plan:

1. To serve as a guide during the lifetime of the business. It is the blueprint of your business and will provide you with the tools for analysis and change.

2.

A business plan is a requirement if you are planning to seek a loan. It will provide potential lenders with detailed information on all aspects of your company's past and current operations and provide future projections.

Business Plan Outline

I. Cover sheet

Serves as the title page of your business plan. It should contain the following:

- Name of the company
- Company address
- Company phone number (include area code)
- Logo (if you have one)
- Names, titles, addresses, phone numbers (include area code) of owners
- Month and year your plan was issued
- Name of preparer

U. Statement of purpose

(Same as executive summary.) This is the thesis statement and includes business plan objectives. Use the key words (who, what, where, when, why, how, and how much) to briefly tell about the following:

What your company is (also who, what, where and when).

- What your objectives are.
- If you need a loan, why you need it. How much you need.

Why you will be successful.
How and when you plan to repay your loan.

M. Table of contents

- A page listing the major topics and references.

IV. The business

Covers the details of your business.

- Include information about your industry in general, and your business in particular. Address the following:
 - Legal structure-Tell what legal structure you have chosen and state reasons for your choice.
 - Description of the business-Detail your business. Tell about your history, present status and future projections. Outline your product or service in terms of marketability. Project a sense of what you expect to accomplish in the next few years.
 - Products or services--Give a detailed description of your products from raw materials to finished items. Tell about your manufacturing process. If you provide a service, tell what it is, how it is provided and why it is unique. List future products or services you plan to provide.
 - Location-Describe site and why it was chosen. (If location is important to your marketing plan, focus on this in the marketing section below.)
 - Management-Describe who is behind the business. For each owner, tell about responsibilities and abilities. Support with resumes.
 - Personnel-Who will be doing the work, why are they qualified, what is their wage, what are their responsibilities?
 - Methods of record keeping-What accounting system will you use? Who will do your record keeping? Do you have a plan to help you use your records in analyzing your business?
 - Insurance-What kinds of insurance will you need? What will these cost and who will you use for a carrier?
 - Security-Address security in terms of inventory control and theft of information.

V. Marketing

Covers the details of your marketing plan. Include information about the total market with emphasis on your target market. Identify

your customers and tell about the means to make your product or service available to them.

Target market-Identify characteristics of your customers. Tell how you arrived at your results. Back up information with demographics, questionnaires and surveys. Project size of your market. Competition-Evaluate indirect and direct competition. Show how you can compete. Evaluate competition in terms of location, market and business history. Methods of distribution-Tell about the manner in which products and services will be made available to the customer. Back up decisions with statistical reports, rate sheets, etc.

Advertising-How will your advertising be tailored to your target market? Include rate sheets, promotional material and time lines for your advertising campaign.

- Pricing-Pricing will be determined as a result of market research and costing your product or service. Tell how you arrived at your pricing structure and back it up with materials from your research.
- * Product design-Answer key questions regarding product design and packaging. Include graphics and proprietary rights information.
- Timing of market entry-Tell when you plan to enter the market and how you arrived at your decision.
- Location-If your choice of location is related to target market, cover it in this section of your business plan. (See location in the business section of this outline.)
- Industry trends-Give current trends, project how the market may change and what you plan to do to keep up.

VI. Financial documents

These are the records used to show past,

current and projected finances. The following are the major documents you will want to include in your business plan. The work is easier if these are done in the order presented.

- Summary of financial needs-This is an outline indicating why you are applying for a loan and how much you need.
- Sources and uses of funds statement-It will be necessary for you to tell how you

Cashflow statement (budget)-This

document projects what your business

plan means in terms of dollars. It shows **cash inflow and outflow over a period** of time and is used for internal planning.

Cash flow statements show both how much and when cash must flow in and out of your business.

Three-year income projection-A pro forma income statement showing your projections for your company for the next three years. Use the pro forma cash flow statement for the first year's figures and project the next according to economic and industry trends.

Break-even analysis-The break-even point is when a company's expenses exactly match the sales or service volume. It can be expressed in total dollars or revenue exactly offset by total expenses or total units of production (cost of which exactly equals the income derived by their sales). This analysis can be done either mathematically or graphically.

NOTE: The following are actual performance statements reflecting the activity of your business in the past. If you are a new business owner, your financial section will end here and you will add a personal financial history. If you are an established business, you will include the

actual performance statements that follow.

Balance sheet-Shows the condition of

the business as of a fixed date. It is a picture of your firm's financial condition at a particular moment and will show you

whether your financial position is strong or weak. It is usually done at the close of

an accounting period, and contains assets, liabilities and net worth.

Income (profit and loss) statement

Shows your business financial activity over a period of time (monthly, annually). It is a moving picture showing what has happened in your business and is an

excellent tool for assessing your business. Your ledger is closed and balanced and the revenue and expense totals transferred to this statement.

intend to disperse the loan funds. Back up
your statement with supporting data.

Business financial history-This is a summary of financial information about your company from its start to the present. The business financial history and loan application are usually the same. If you have completed the rest of the financial section, you should be able to transfer all the needed information to this document.

- Contracts-Include all business contracts, both completed and currently in force.
- Legal documents-All legal papers pertaining to your legal structure, proprietary rights, insurance, titles, etc.
- Miscellaneous documents-All other documents that have been referred to, but are not included in the main body of the plan (e.g., location plans, demographics, advertising plan, etc.).

VII. Supporting documents

These are the records that back up the

statements and decisions made in the three main parts of your business plan. Those most commonly included are as follows:

- Personal resumes-Should be limited to one page and include work history,

educational background, professional affiliations and honors and special skills.

- Personal financial statement-A statement of personal assets and liabilities. For a new business owner, this

- with

will be part of your financial section. Credit reports-Business and personal from suppliers or wholesalers, credit

- at

bureaus and banks. Copies of leases--All agreements

- detailed

currently in force between your company

and a leasing agency.

Letters of reference-Letters recommending you as being a reputable and reliable businessperson worthy of being considered a good risk. (Include both business and personal references.)

Puffing Your Plan Together

When you are finished: Your business plan should look professional, but the lender needs to know that it was done by you. A business plan will be the best indicator he or she has to judge your potential for success. It should be no more than 30 to 40 pages long. Include only the

supporting documents that will be of immediate interest to your potential lender. Keep the others in your own copy where they will be available on short notice. Have

copies of your plan bound at your local print shop, or

a blue, black or brown cover purchased from the stationery store. Make copies for yourself and each lender you wish to approach. Do not give out too many copies

once, and keep track of each copy. If your loan is refused, be sure to retrieve your business plan. For a more

explanation of each section of the business plan outline, see SBA's publication, *How to Write a Business Plan*, which includes step-by-step directions and sample sections of actual business plans. Also available from the SBA is a VHS videotape and workbook, "The Business Plan: Your Roadmap for Success."

U.S. Small Business Administration (SBA)

The SBA offers an extensive selection of information on most business management topics, from how to start a business to exporting your products.

This information is listed in *The Small Business Directory*. For a free copy write to: SBA Publications,

P.O. Box 1000, Fort Worth, TX 76119.

SBA has offices throughout the country. Consult the U.S. Government section in your telephone directory for the office nearest you. SBA offers a number of programs and services, including training and educational programs, counseling services, financial programs and contract assistance. Ask about

- Service Corps of Retired Executives (SCORE), a national organization sponsored by SBA of over 13,000 volunteer business executives who provide free counseling, workshops and seminars to prospective and existing small business people.
- Small Business Development Centers (SBDCs), sponsored by the SBA in partnership with state and local governments, the educational community and the private sector. They provide assistance, counseling and training to prospective and existing business people.
- Small Business Institutes (SBIs),

organized through SBA on more than 500 college campuses nationwide. The institutes provide counseling by students and faculty to small business clients.

For more information about SBA business development programs and services call the SBA Small Business Answer Desk at 1-800-U-ASK-SBA (827-5722).

Alcohol, Drug Abuse and Mental Health Administration ***Other U.S. Government Resources***

Many publications on business management and other related topics are available from the Government Printing Office (GPO). GPO bookstores are located in 24 major cities and are listed in the Yellow Pages under the "bookstore" heading. You can request a *Subject Bibliography* by writing to Government Printing Office, Superintendent of Documents, Washington, DC 20402-9328.

Many federal agencies offer publications of interest to small businesses. There is a nominal fee for some, but most are free. Below is a selected list of government agencies that provide publications and other services targeted to small businesses. To get their publications, contact the regional offices listed in the telephone directory or write to the addresses below

Consumer Information Center (CIC)

P.O. Box 100

Pueblo, CO 81002

The CIC offers a consumer information catalog of federal publications.

Consumer Product Safety Commission (CPSC)

Publications Request

Washington, DC 20207

The CPSC offers guidelines for product safety requirements.

U.S. Department of Agriculture (USDA)

12th Street and Independence Avenue, SW

Washington, DC 20250

The USDA offers publications on selling to the USDA.

Publications and programs on entrepreneurship are also available through county extension offices nationwide.

U.S. Department of Commerce (DOC)

Office of Business LWIwn

14th Street and Constitution Avenue, NW

Room 5898C

Washington, DC 20230

DOC's Business Assistance Center provides listings of business opportunities available in the federal government.

This service also will refer businesses to different programs and services in the DOC and other federal

agencies.

U.S. Department of Health and Human Services (HHS)

Public Health Service

5600 Fishers Lane
Rockville, MD 20857

Drug Free Workplace Helpline: 1-800-8434971. Provides information on Employee Assistance Programs.

National Institute for Drug Abuse Hotline:

1-800-6624357. Provides information on preventing substance abuse in the workplace.

The National Clearinghouse for Alcohol and Drug Information: 1-800-729-6686 tou-free. Provides pamphlets and resource materials on substance abuse.

U.S. Department of Labor (DOL)
Employment Standards Administration
200 Constitution Avenue, NW
Washington, DC 20210
The DOL offers publications on compliance with labor laws.

U.S. Department of Treasury
Internal Revenue Service (IRS)
P.O. Box 25866
Richmond, VA 23260

1-800424-3676
The IRS offers information on tax requirements for small businesses.

U.S. Environmental Protection Agency (EPA)
Small Business Ombudsman
401 M Street, SW (A- 149C)
Washington, DC 20460
1-800-368-5888 except DC and VA
703-557-1938 in DC and VA
The EPA offers more than 100 publications designed to help small businesses understand how they can comply with EPA regulations.

U.S. Food and Drug Administration (FDA)
FDA Center for Food Safety and Applied Nutrition
200 Charles Street, SW
Washington, DC 20402
The FDA offers information on packaging and labeling requirements for food and food-related products.

For More Information

A librarian can help you locate the specific information you need in reference books. Most libraries have a variety of directories, indexes and encyclopedias that cover many business topics. They also have other resources, such as

Trade association information

Ask the librarian to show you a directory of trade associations. Associations provide a valuable network of resources to their members through

publications and services such as newsletters, conferences and seminars.

• Books

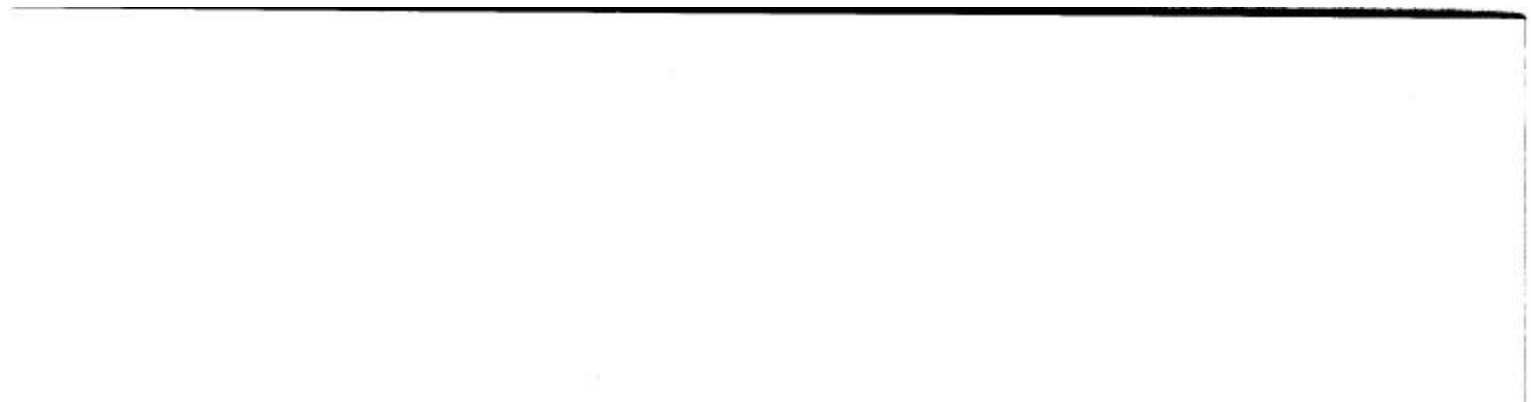
Many guidebooks, textbooks and manuals on small business are published annually. To find the names of books not in your local library check *Books In Print*, a directory of books currently available from publishers.

• Magazine and newspaper articles

Business and professional magazines provide

information that is more current than that found in books and textbooks. There are a number of indexes to help you find specific articles in periodicals.

In addition to books and magazines, many libraries offer free workshops, lend skill-building tapes and have catalogues and brochures describing continuing education opportunities.



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